

Message Text

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PAGE 01 CAIRO 04608 071821Z

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EXDIS

EO 11652: GDS
TAGS: EAID EG
SUBJECT: STATUS OF ARAB FUND FOR EGYPT

REF: CAIRO 2635

1. SINCE MINFINANCE ABU ISMAIL HAS JUST RETURNED FROM A PRELIMINARY ORGANIZATIONAL MEETING OF THE PROPOSED ARAB FUND IN RIYADH, I MET WITH HIM TODAY TO INQUIRE HOW THE SESSION HAD GONE. ABU ISMAIL PROFESSED NOT TO BE ENTIRELY CERTAIN, BUT NOTED SAUDI MINFINANCE ABU KHAYL HAD BEEN VERY HELPFUL AND ENCOURAGING. ABU ISMAIL GAVE THE FOLLOWING ACCOUNT:

2. IN SEVERAL MEETINGS WITH SAUDI AND GULF MINISTERS OF FINANCE, HE HAD PRESENTED EGYPT'S CASE. HE HAD TAKEN WITH HIM GOE'S FIVE YEAR PLAN DETAILING ITS FOREIGN COMMITMENTS, SHORT TERM LOANS, REPAYMENT REQUIREMENTS ON SUCH SHORT TERM LOANS, ETC. HE HAD ALSO EMPHASIZED THAT EGYPT NEEDS TO BE GIVEN TIME TO DEVELOP AND TO BE ABLE TO STAND ON ITS OWN FEET. THEREAFTER, HIS ARAB COLLEAGUES COULD BE ASSURED THAT EGYPT WILL HAVE THE CAPACITY TO PAY. IN THE MEANTIME, HOWEVER, CONCESSIONARY LOANS AND A

SECRET

SECRET

PAGE 02 CAIRO 04608 071821Z

GRACE PERIOD ARE NECESSARY TO MEET EGYPT'S CURRENT

BURDENS, E.G., OIL PRICES, B/P DEFICIT, INCREASED POPULATION, DIFFICULTY BORROWING MONEY FROM WORLD MARKET, ETC. HE HAD ALSO ADDRESSED HIMSELF TO THE CHANGED POLITICAL ATMOSPHERE IN EGYPT AND TO THE LIKELY EFFECTS OF EXPECTED SOVIET PRESSURE. SOVIETS HAD REFUSED TO RESCHEDULE EGYPTIAN DEBT AND EGYPT IS IN FACT NOW REQUIRED TO PAY THEM MORE THAN IT CAN REASONABLY DO.

3. SPECIFICALLY, ABU ISMAIL HAD SET FORTH EGYPTIAN REQUIREMENTS AS FOLLOWS FOR THE UPCOMING FIVE YEAR PERIOD:

\$8,000 MILLION FOR LIQUIDITY PURPOSES

\$4,000 MILLION FOR INFRASTRUCTURE AND INVESTMENT

THUS, EGYPT'S TOTAL REQUIREMENT FROM ARAB'S DURING THIS PERIOD WOULD BE \$12,000 MILLION.

4. IN SUPPORT OF HIS ARGUMENT THAT GOE WILL EVENTUALLY BE ABLE TO REPAY, HE HAD PRESENTED ESTIMATES FO LIKELY EXPORTS AND INCOME FROM GOODS AND SERVICES FROM 1980 ONWARDS. FOR THIS PURPOSE, HE HAD USED FIGURES CONTAINED IN THE NEWLY RECEIVED IBRD STUDY. ASKED BY KUWAITI MINFINANCE ATIKI WHERE SUCH FUNDS WERE TO BE OBTAINED, ABU ISMAI SAID HE HAD URGED THAT OIL WEALTHY ARAB STATES DIVERT SOME OF THE FUNDS THEY WOULD NORMALLY INVEST ABROAD AND MAKE THEM AVAILABLE FOR EGYPT'S USE. EVERYONE'S ABILITY TO CONTRIBUTE COULD, HE ARGUED, EASILY BE ESTIMATED. A KIND OF PRO RATA SYSTEM COULD BE DEvised, DEPENDING UPON THE MEANS OF THE RESPECTIVE DONORS WHAT EACH POTENTIAL DONOR CAN GIVE SHOULD BE PROVIDED IN THE FORM OF A CONCESSIONARY LOAN. WHAT THEY CANNOT GIVE SHOULD BE HANDLED BY INDIVIDUAL DONORS OFFERING BANK GUARANTEE OF COMMERCIAL LOANS.

5. ABU SIMAIL THOUGHT THE GENERAL REACTION HAD BEEN FAVORABLE AND THE ARAB FUND HAD INDEED BEEN
SECRET

SECRET

PAGE 03 CAIRO 04608 071821Z

AGREED UPON IN PRINCIPLE. IT IS HIS UNDERSTANDING THAT THIS FUND WILL ONLY BE FOR EGYPT, AT LEAST FOR NOW. THE SAUDI AND GULF FINANCE MINISTERS ARE TO MEET AGAIN TOWARD THE END OF APRIL IN AN EFFORT TO MOVE AHEAD ON THE PROJECT.

6. ABU ISMAIL URGED THAT WE ALSO APPROACH THE SAUDIS AND THE GULF STATES TO SUPPORT EGYPT'S NEED FOR

EMERGENCY ASSISTANCE FUNDS FROM THEM. HE STRESSED
THAT HE NEEDS CASH BY MAY 1 TO MEET OBLIGATIONSWHICH
WILL THEN BECOME DUE.

7. ASKED HOW THE ABOVE FITTED INTO THE EARLIER IDEA
OF A \$2 BILLION FUND FROM WHICH EGYPT CULD DRAW
25 PERCENT IN THE FIRST YEAR, ABU ISMAIL SAID THIS
IDEA HAD NOT BEEN MENTIONED AGAIN. INSTEAD,
THE TARGET FIGURE IS OW THE ONE HE PRESENTED-- OR
SO HE HOPES.
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